June 10, 1959

Investor's Reader

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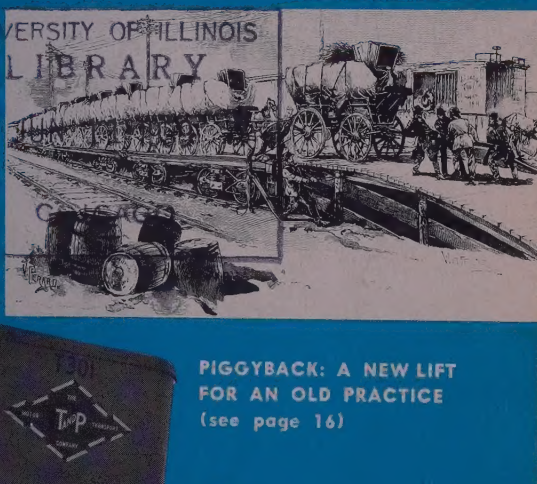
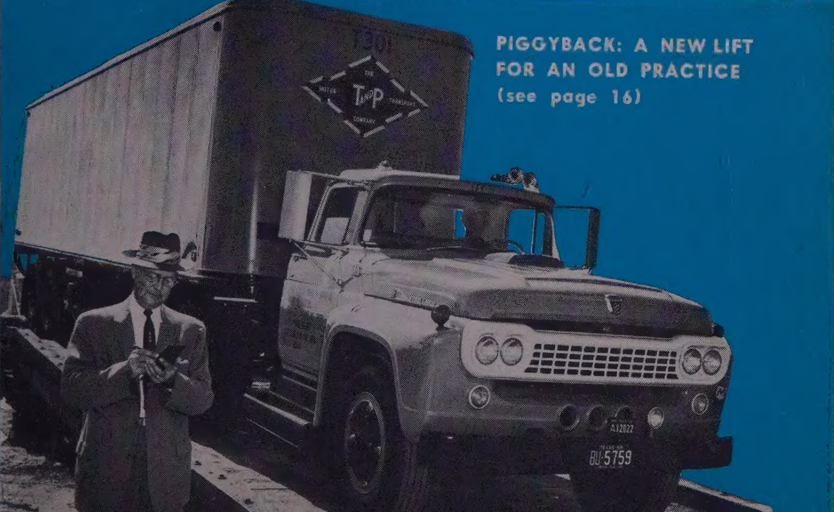
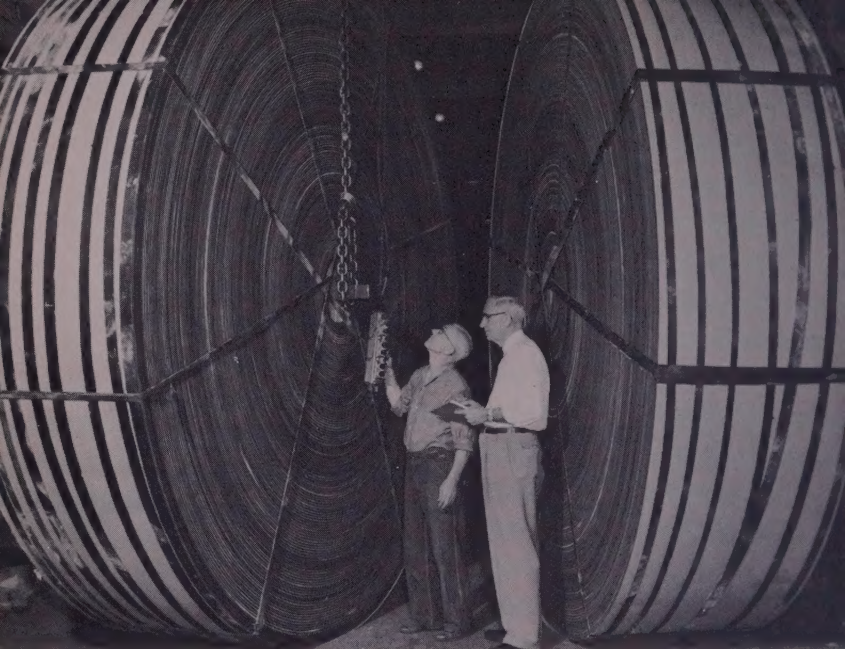




PIGGYBACK: A NEW LIFT FOR AN OLD PRACTICE
(see page 16)



GOODYEAR ROLLS AHEAD

These towering spools about to be rolled out by Goodyear Tire & Rubber Company will cover much more territory than their twelve-foot-plus height would indicate. The tightly wrapped 13-ton rolls represent a "mile in the round" as each contains half a mile of conveyor belting. They are destined for the Ash Grove Lime & Portland Cement Company of Louisville, Neb. There they will be unwound and spliced together to carry limestone from quarry to mill at the rate of 1,000 tons an hour.

Belting and other industrial items are important if somewhat overshadowed products of the nation's No 1 tiremaker. They include special hose for carrying caustic chemicals; also molded and extruded components from tiny gaskets to 45-pound rubber parts for oil drilling equipment.

However, tires still account for three-fifths of total sales and currently Goodyear rides high. Business booms both in the replacement and original equipment markets, especially with improved operations at chief auto customer Chrysler. Goodyear's record first quarter sales of $371,000,000 were 20% above 1958 and 6% above the first 1957 quarter. Net swelled 55% to $17,000,000 or $1.57 a share compared to $1.03 a share in 1958 though it did not quite catch up with the $1.67 initial period of 1957. The second quarter and the rest of the year should continue to show well-cushioned gains—especially since Goodyear was the only one of the leading tiremakers to settle its labor contract without a strike this Spring.

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Investor's Reader

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Frozen Foods Growth & Problems

Convenient New Dishes Heat Up Sales But Earnings Stay Frozen

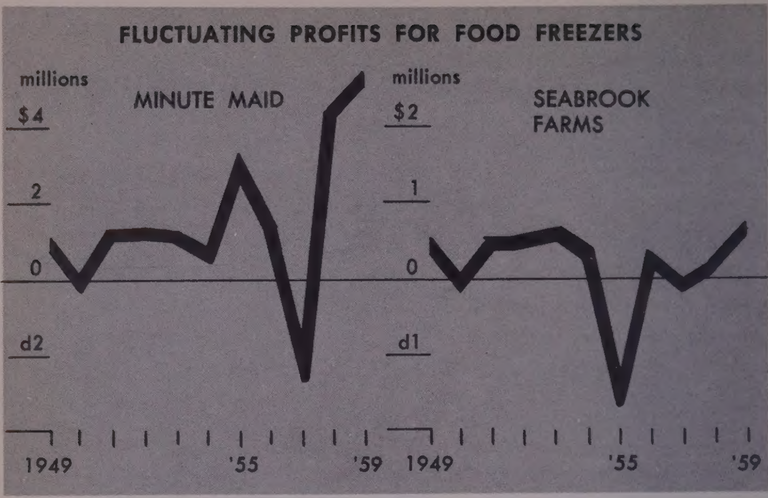
IN A WORLD dazzled by space ships, miracle drugs and assorted electronics, many people have overlooked a fast-growing industry—frozen foods.

Thirty years ago Clarence Birdseye's new venture was stuck with over a million pounds of frozen seafood in its freezers which it could not get the public to buy. The intervening decades have brought many changes—starting incidentally with the 1929 acquisition of the Birdseye unit by already diversified Postum Cereal Company which promptly changed its name to General Foods, a corporate title Birdseye had used for his holding company.

Last year the Birds Eye division of General Foods along with some 1,600 other US processors turned out about 4.6 billion pounds of frozen food for which Americans paid $2.3 billion. Seafood, the original quick-frozen dish, now accounts for barely one-eighth of the total poundage in the nation's freezers compared with 27% for vegetables and 14% for fruits.

But the biggest growth has come in the almost unlimited menu of prepared dishes whose volume jumped from a sparse 60,000,000 pounds in 1950 to 540,000,000 pounds (12% of all frozen foods) in 1958. Specifically, convenience-hungry Americans last year consumed among other things 300,000,000 pot pies, 102,000,000 fruit pies, 43,000,000 pounds of breaded shrimp. They also drank 206,000,000 gallons (reconstituted) of frozen orange juice, a figure 25% below the previous season's record because of: 1) supplies curtailed by the big Florida freeze and 2) the inroads of a still newer competitor, fresh-chilled juice.

Unfortunately the sweeping popu-



larity of frozen foods has not particularly garnished the road to better profits for most food companies. In its rapid growth the industry has frequently tripped over itself. While many brands are packaged by diversified food companies, the earnings of at least two simon-pure freezers have been cases of feast or famine—as shown by the above chart.

Back in 1929 Clarence Birdseye had a hard time finding a company to promote his revolutionary process. Even when Postum-General Foods finally took the plunge, it was 1937 before the Birds Eye division showed a profit. Through War II production rose steadily but the demand was not fully realized until frozen foods were removed from the ration list.

Suddenly everyone tried to get in on the bonanza (Bing Crosby had a big voice in Minute Maid) but the result was a flood of inferior products. It was the public's turn to freeze. The setback was only temporary but it stunted the spectacular gains originally predicted for the industry. Aided by a growing population and more & more labor-saving pre-cooked and prepared dishes, production increases each year but still accounts for only 4.7% of total food sales in grocery stores (though up from 2.1% in 1950).

Display Chills. This stifled expansion can be largely laid to an inherent problem in this particular branch of the food business: the nation's 110,000 retail chain stores use only 8% of their total square feet to display the icy product—just about room enough to keep an adequate supply of a couple of dozen dishes out of the thousands available. The corner grocer might carry one or two well-established brands.

Most industry spokesmen agree lack of cabinet space is their biggest

bottleneck even though the newer stores are giving them more room. Meantime a *Progressive Grocer* study concludes retailers could boost sales over 20% with present space by keeping an eye on turnover and rearranging displays.

Another headache: while quick-frozen foods must compete price-wise with fresh and canned products in the store, they require heavier expense all along the line. When the industry was invaded by fly-by-nights a few years back, it quickly learned quality control was the key to its success. This requires not only skilled processing but maintenance of stable below-zero temperatures until the product is prepared for the dinner table. This naturally adds up to large initial outlays by processors, transporters, wholesalers, retailers—and the housewife if she needs extra freezer space.

Bagged Dinners . . . Late last year several companies went full steam into "boil-in-bag" prepared specialties, the latest word in complete convenience for the cook. The boilable pouch is simply dropped into a pot of boiling water; 10-to-15 minutes later creamed spinach or lima beans in cheese sauce are ready to eat. Seabrook Farms, the Jersey outfit taken over by Seeman Bros last week, claims great success for its bagged foods. Seabrook's prepared foods brand manager George Tonjes says the concept "has proven itself positively. Because of its simplicity it should sell better in Summer than in Winter which has never happened before. Since salt water can be used the packages are ideal to take along on a boat trip. At home, I give my company a menu and while they are having cocktails, their individual dinners are boiling up—all in the same pot."

Seabrook also has a line of famous restaurant brands containing such gourmet delights as beef Bourguinon from Hostellerie Du Coq Hardi in France and meat patty Bavaria with mushroom sauce from New York's Luchow's. Many restaurants including roadside host Howard Johnson package their own specialties. Cleveland-based Stouffer (IR, Dec 11, 1957) now freezes lobster Newburg and potatoes au gratin for home consumption. And for the corporate cook the plumper profit margins of these new prepared dishes generally may add the long-needed vitamins to the frozen food profits diet.

. . . For Mass Diners. The ever-easier-to-prepare innovations should also broaden the market for institu-

Today's dinners 'boil-in-bag'

tional sales. They offer large-scale food servers both labor savings and portion control, a great help in computing and cutting costs. Wilson & Company, the biggest institutional provider, has already sold quantities of chicken a la king and ham in raisin sauce "Menu-Paks" to restaurants, company cafeterias, hotels and colleges. The Chicago meat packer & sporting goods firm furnishes specially designed heating units to its customers and sees a large potential market in airlines and park concessions.

Certainly millions of GIs would be happier with food prepared by civilian experts. Last year the Quartermaster Corps purchased 226,440,000 pounds of frozen food or 5% of the industry's output.

Still other beneficiaries of the bagging trend are the packagers which make the leakproof containers. For instance Mylar, a tough polyester film developed by duPont, is combined with polyethylene by Continental Can, Standard Packaging and Philip Morris subsidiary Milprint in a two-layer pouch. For some customers a middle sheet of aluminum foil is added to hide the contents until they are ready for the table. Minnesota Mining & Manufacturing furnishes similar Scotchpak to several dozen packers.

Aware of their terrifically competitive position, frozen food men are constantly researching better methods of making food as "homemade tasting" as possible while also on the lookout for something new to freeze. Last month General Foods offered "a unique new dry-freezing process" which it introduced in a line of baby food. It retains the nutrients cooked out in jarring or canning processes. The company considers it the "most significant innovation in infant feeding since the introduction of baby foods." Unlike most frozen foods, these new vegetables, soups and fruits can be stored in any part of the refrigerator for as long as a month.

Like General Foods, most of the nation's major food companies have frozen divisions. Campbell Soup packs Swanson dinners; Stokely-Van Camp offers Pict Sweet varieties; Consolidated Foods has Ocomo and Sara Lee brands; Continental Baking bakes Morton pies. Booth Fisheries is a big factor in seafood marketing.

Minute Maid concentrates on citrus fruit juices since the 1957 licensing of its Snow Crop food (but not juice) line to Seabrook. Because both these companies rely heavily on fruits and vegetables, Nature has had a hand in their periodical profit squeeze.

As it celebrates its thirtieth anniversary, the industry hopes to fulfill some of the early predictions for it. Frozen food leaders claim most of the below-par operators have been weeded out while the long established larger food companies and responsible independents are proceeding with temperance.

Best estimates say even today only 50% of the nation buys frozen foods. Thus, as far as market saturation is concerned, half the country is still waiting to be sold on the modern wonders of the deep freeze.

NATIONAL ECONOMY
Diamond Bumps Pyramid

THE PYRAMID is passé as a symbol of US income distribution with ever-fewer families on each step up the income scale. Instead, the Chase Manhattan Bank notes in its latest *Business in Brief*, this middle class nation has established a diamond pattern with 70% of all families lumped in the $3-to-15,000 a year categories.

However, for many families higher income stemmed from a second breadwinner. In the $7,200 & up category more than half the families had more than one member at work.

AMUSEMENTS
ABC-Paramount Spotlight

THE SEVENTH annual meeting of American Broadcasting-Paramount Theatres Inc was held two weeks ago in the company's TV studio on Manhattan's West 66th Street. Though the site adjoins the ambitious Lincoln Square "cultural center" development now under construction, the present surroundings are rather uninspiring. Inside the building (which also houses the corporation's headquarters) the big studio presented a workmanlike but frill-less setting. But at least one of the 300-meeting-goers rose from his camp chair to welcome the shift of scene from the traditional midtown hotel location. He declared with feeling: "This is where we should always have the meeting. We are really in show business now."

On the stage president Leonard H Goldenson presented further evidence the company had really arrived in show business, the arena in which both American Broadcasting Company and Paramount Theatres have operated since long before their 1952 wedding. Thanks to its TV profits, the diversified concern boosted first quarter net to $2,267,000 (54¢ a share) compared with $1,958,000 (43¢) in 1958. The gain was produced by a 19% hike in ABC television billings although "the theater business for that period was not quite up to the results of the 1958 first quarter."

In the second quarter all major division revenues (television & radio broadcasting, theaters, AM-PAR records) are running ahead of last year. However president Leonard H Goldenson warned: "High development costs in daytime television programming will preclude any significant improvements during this quarter over last year when second quarter net was 27¢ a share."

Up From Ultrared. Once the "junior" network which struggled along virtually out of sight of the industry leaders, ABC has come up fast (IR, Dec 24, 1958). Len Goldenson revealed it "has now moved ahead of one competitor in sponsored program ratings in the evening and is not far behind the other network." High-riding Westerns such as Maverick (see picture), Rifleman and Wyatt Earp have boosted ABC popularity.

Bookings for the Fall season are "well ahead of last year" and ABC

Maverick holds an ABC ace

hopes to shoot more ratings bullseyes with some new programs like the hour-long Alaskans, James Michener's Adventures in Paradise and several Bing Crosby and Frank Sinatra "live" specials.

One notable Fall absentee: the Voice of Firestone. Although advertiser Firestone was ready to pay, ABC (like the other networks) refused to accept the show during prime evening hours. Broadcaster Goldenson answered a vigorous stockholder protest: "It appealed to only 3,500,000 homes while another show may appeal to 14,000,000."

Increased TV billings have far outpaced the company's dwindling theater revenues in recent years. Bright-eyed Goldenson states: "We plan to divest ourselves of at least 100 more theaters of the 505 we now have. We intend to put every theater we keep on a sound financial basis." In the process the company should raise more cash which can be plowed into the more profitable parts of the business.

To further brighten operations "by diversifying within the entertainment field" the $156,000,000-assets company has bought a 600-acre tourist center in Florida delightfully known as Weeki-Wachee Spring. It hopes to emulate the financial success of California's Disneyland in which it holds a 35% stake. Another profitable venture is four-year-old AM-PAR whose label is on such "gold discs" (over 1,000,000 copies sold) as Little Star, Diana and Venus.

While the theater outlook is far from dynamic, the eight-year downtrend in movie attendance appears to have at least temporarily bottomed out. Besides, the theaters spin out a fairly reliable minimum income—a comforting fact which sustained the organization while the TV network broadcast in deep red until 1955.

Among the remaining ABP (Big Board ticker abbreviation) properties, ABC radio broadcasting is still unprofitable but "has reduced its loss." Three small electronic firms in which the company has over one-fourth interest "continue to increase their sales." All told Wall Streeters predict ABP operations this year will show entertaining gains over 1958 when revenues came to $244,800,000 and profits to $6,116,000 or $1.40 a share.

With the outlook bright Len Goldenson promises "directors will consider an extra dividend at the year-end if earnings warrant." The last extra was 30¢ tacked to the regular $1 annual in 1956 when the company netted $1.96 a share. The stock then reached an alltime high of 33. On poorer earnings the next year the 4,150,000 shares dropped to 12 but since have more than doubled to a recent 26.

RAILROADS

Nickel Plate Sparkle

Business is getting better every day.

THIS was the financial news ticket chairman Lynne White of the New York, Chicago & St Louis Railroad (better known as the Nickel Plate—or NKP on the stock ticker) punched out for stockholders at the annual meeting in Cleveland last fortnight. He announced a 130% increase in earnings a share for the first four months of 1959 to $1.08 from 47¢ last year.

"In April," he added, "we earned 33¢ a share or three times as much as the 11¢ made in April 1958" and business continues to roll in. "Carloadings for the first two weeks of May were 30% above the 1958 period; perhaps even more important, they were almost equal to the 1957 period."

All told railroader White figured the Nickel Plate, barring an extended steel strike, should net about the same this year as in 1957—"somewhere in the $3.50-to-3.65 a share area." This would be a fine recovery from last year's $2.52, itself a surprisingly good showing for a recession year and one which enabled NKP to keep up—and safely cover—its 50¢ quarterly dividend. This recovery has sent 4,150,000 NKP shares which went as low as 18 last year highballing back up to 36 this Spring.

With earnings on the upgrade, Lynne White reports maintenance and capital expenditures are being stepped up. Several hundred old boxcars and hoppers have been retired. These will be replaced by perhaps 500 new cars of each type. But the Nickel Plate is thrifty. "Some of the retired boxcars are being converted into flatcars for piggyback service [see page 16] which is the fastest growing part of our business. Piggyback loadings increased 21% in 1958 over 1957 while overall carloadings declined 20%."

Chairman White also cheered stockholders with details of a Nickel Plate victory in winning back some coal freight which had been wooed away by truckers. The railroad last Fall won ICC permission to reduce its coal rates in the Cleveland area to meet the competition. The result: "We are now handling coal from the southern Ohio fields to Cleveland at the rate of about 35,000 tons a month."

While Nickel Plate, like other roads in the area east of Chicago, has been a staunch foe of the St Lawrence Seaway (IR, May 27), Lynne White also had comforting words concerning this new competitor: "It may well be that over a period of time the Seaway will result in speeding the further industrialization of the territory we serve."

RETAIL TRADE

Gimbel Gathering

HOME-BASE for 116-year-old department store chain Gimbel Brothers is the busy 33rd Street Gimbel store in the hub of New York's garment district. With this destination in mind, about 50 stockholders last month joined the hectic traffic of busy shoppers and handcart pushers, then elevatored to the

Groundbreaking at Roosevelt Field

tenth floor executive offices for the corporation's annual meeting.

After the call to order president Bruce A Gimbel reviewed the company's record breaking 1958 fiscal year (which, as for most department stores, actually ended January 1959). Despite a very recession-hurt start, sales increased 4% to a record $384,000,000 while earnings rose to $7,968,000 ($3.85 a share) from the $7,657,000 or $3.69 a share earned in 1957.

Then came a "special" of more up-to-date news: "Gimbels had record sales in the first [April] fiscal quarter of this year of $89,159,000 compared to last year's $83,800,000. Earnings jumped to $1,282,000 (60¢ a share) from $617,000 (26¢) in the very poor first quarter last year."

This showing is even more remarkable as part of the period was hampered by the 23-day United Parcel deliverymen's strike which ended May 11. Chairman Bernard Gimbel called it "very hurtful, particularly on mail and phone orders and heavy goods—however it is difficult to estimate its full effect."

A key to Gimbel's improvement is its expansion into branch stores. Last year 22% of company sales were gleaned from 13 suburban stores opened since 1954. The rest came from six downtown stores (operated under the Gimbels and Saks banners) plus ten older branches. This Fall a new Saks Fifth Avenue resort shop is due to open in Palm Springs, Cal.

President Gimbel reported the company "is continuing to explore the possibilities for other locations." Two definite locations: Gimbels-New York branches in Jersey's Garden State Plaza center and in Long Island's Roosevelt Field shopping center (see picture for groundbreaking digs by chairman Bernard & prexy Bruce with landlord Zeckendorf in the middle). In both it will carry on its fabled rivalry with R H Macy, already established in both centers.

Stockholders cheered these progressive growth prospects but also expressed hopes for a hike in the 45¢ quarterly dividend. President Bruce Gimbel allowed "an increase in the current dividend rate will be seriously considered," but cautioned on the timing: "When & if we get back to the $2 annual rate [paid in 1947-48]—we want it to stay." Apparently undismayed, Gimbel stock

is up ten points or almost 30% from the low of 36 earlier this year.

Similarly buoyant, chairman Bernard Gimbel closed the meeting on this cheerful note: "We look for continued favorable improvements in sales and earnings for the rest of the year."

TEXTILES

Fast Future

AS RECENTLY as the turn of the year treasurer Maurice L Clemence of Boston health & hygienic supply maker Kendall Company maintained: "We are very pleased with our current over-the-counter market and while we may list some time in the future, we'll have to be sure a listed market will be as good" (IR, January 21).

The future has arrived swiftly. Last week $70,000,000-assets Kendall Company filed formal application to list its 1,043,000 common shares on the Big Board.

In what proved to be its final over-the-counter months, Kendall stock has also moved fast. From what was an alltime peak of 50 in early January, it continued to scale greater heights and briefly reached 63 soon after the listing announcement. Since then it has receded a few steps to the still-lofty terrain of 58 bid. With the $2 annual dividend (maintained since 1954), this makes for a yield of 3½%.

The listing news aside, Kendall's rise has been sparked by a banner first quarter. Sales were up 10% to $25,800,000 while profits reached a pleasant 81¢ a share against 63¢ a year earlier. Moreover, the company reports many of its divisions are working against "an unusually large backlog of orders."

Though an old line textile house, Kendall has prospered through concentration on specialties such as Curad finger bandages; Bauer & Black surgical dressings, gauzes, elastic bandages; Curity cottons and sutures; Blue Jay foot products; Bike elasticized athletic supports. Thus it weathered stormy 1958 quite comfortably. It racked up earnings of $3.60 a share for the year, off only 20¢ from 1957.

RUBBER

New Maid on Board

ANOTHER veteran about to take its place on the almost explosively expanding roster of Big Board companies is Rubbermaid Inc, a $13,000,000-assets maker of rubber products useful in the home, the car, or the family yacht, cabin cruiser or runabout. Typical products: dish drainers, wastebaskets, auto floormats and holders for boat gas tanks.

Once known as Wooster Rubber Company, the concern last year abandoned the name of its hometown (Wooster, Ohio) for that of its principal line of products. In the year ended last September, the Ohio manufacturer netted $1,135,000 (92¢ a share) on sales of $21,474,000; in the first half of fiscal 1959, it upped sales 13% and posted earnings of 47¢ a share *v* 38¢. Digesting these moderate gains, Rubbermaid's 1,328,000 shares recently hit an alltime high of 16 or double last year's low. At this level the 30¢ annual dividend provides a mere 2% yield.

RAILROAD EQUIPMENT

Pressure Pouring Widens Diversification Track for American Steel Foundries

LIKE MOST rail equipment makers Chicago-centered American Steel Foundries has sought to forge a diversified structure for the past ten years or more. Up to now its chief ventures have been acquisitions: King Machine Tool Corp of Cincinnati in 1948; Diamond Chain of Indianapolis two years later; Pipe Line Service of Franklin Park, Ill in 1955.

Now president Joseph Barney Lanterman thinks he can further cut dependence on rail business by exploiting a process developed by ASF (the company's ticker abbreviation) seven years ago to make steel wheels for railroad cars. ASF pressure pours molten metal into graphite molds to make its wheels and is experimentally applying the process to many other products. A fundamental advantage: it could eliminate the usual intermediate rolling of steel and enable molten steel to be poured directly into finished shapes.

To further perfect the method ASF has a $1,750,000 laboratory underway in Chicago. Non-railroad applications are currently being tested in collaboration with US Steel. He reports: "We've poured 30-foot billets directly from molten metal in the lab and the process has been applied to all sorts of end uses. We're optimistic. However, even if things work out as we hope, it's going to be some time before earnings will be reflected in the income statement."

Joe Lanterman confirms other companies besides US Steel have shown an interest in pressure pouring. But ASF is waiting until the method is further perfected before offering it. "The idea is we will put all the developments into a package and peddle it." He noted: "Our present thinking is that we would have a license agreement on the process which would bring in royalties." ASF has "a lot of patents" on the process, but cannot tell how strong they are until they are tested.

Joe Lanterman amplified: "Now this is in the dream stage—but we think it might be applicable to a large percentage of the steel business. We think this will be a much cheaper method of making many steel products." Setting up the mechanical operations for pressure pouring will be "expensive" but "not substantial compared to the savings expected." The big savings, he added, will come in construction of new steel plants which will not need rolling operations.

ASF has also developed another cost-saving process, "shell molding." It permits production of bigger and heavier steel castings than have ever been made in shell molds before—up to 300 pounds. It is in successful use producing the company's own railroad parts at the Indiana Harbor plant which has been converted from "an old sand mold shop." (Bigger castings have been made in sand molds but their quality is not as high.) "We think shell molding has a lot of possibilities."

New President. Youthful (44) president Lanterman (who came to ASF as an accountant right after

his University of Illinois graduation in 1936, moved up through the controller's department to a vice presidency in 1954, his present job this January) had other good news on a recent quick trip to Manhattan. Except for machine tools, business at all ASF divisions has picked up. This includes railroad equipment which still brings in 50-to-60% of total ASF volume. Joe Lanterman noted: "We are back on a good footing with railroad car parts. In the first six months of our fiscal year which started October 1 the railroads ordered 27,000 cars or twice as many as all last year. This almost automatically means more work for us." Parts maker American Steel Foundries produces a wagon load of car components including wheels, side frames, couplers, brake beams, springs, etc.

As for non-rail products, in the last three months sales of roller chain made by Diamond Chain have gone up 50%. "The trend toward greater mechanization helps these products which go into everything from textile plants to escalators and vending machines."

Pipe Line Service Corp which coats and wraps pipes for use in oil & gas distribution has doubled its sales since it was acquired in 1955. Orders for hydraulic presses and boring machines are, as usual, lagging behind the upturn in the economy. "We won't be in the red in this department but we're not going to make any substantial profit this year."

New Lathe. ASF is interested in additional diversification. This month stockholders of $8,000,000-assets South Bend Lathe Works will vote on exchanging their holdings for 153,000 ASF shares. Joe Lanterman considers South Bend a good investment because its relatively inexpensive lathes (priced mostly under $1,500) are unusually recession-resistant.

The acquisition would raise ASF stock capitalization to 1,450,000 shares. On the New York Stock Exchange the stock has risen from a low of 28 last year to a current 61. This is the highest level since 1937 though well short of the alltime high of 80 attained in 1929. The present level if maintained would probably encourage the company to "give at least another look" to a stock split.

The importance of ASF's broader gauge was proved last year when the company's railroad business "was the worst since 1933." But thanks to diversification, earnings "did not drop as much as they would have." They fell to $4,520,000 ($3.50 a share) in the September 1958 year from $8,010,000 ($6.20 a share) in fiscal 1957. In the current fiscal year, December quarter returns continued to lag behind a year ago (39¢ *v* $1.40) but March quarter earnings rose to $1.28 from 97¢ a year ago. Joe Lanterman predicts: "The June quarter will be quite a bit better. It could be a record." Final quarter net will be lower than the June period, particularly if there is a long steel strike. Outsiders predict around $4.50-to-$5 for the year and Joe Lanterman sees the last part of fiscal 1959 as "a springboard into a record-breaking 1960."

FINANCE

New-Line Factor at Talcott

Herb Silverman Widens Scope of Old-Line Operator With Commercial Financing

IN THE YEAR 1854—when the Republican Party was founded in Jackson, Mich and Commodore Perry signed the treaty which opened trade with Japan—19-year-old James Talcott set up a small office in New York City as a selling agent for New England textilers.

Like many other selling agents in those days of slow communications and a haphazard banking system which made collections a tenuous and tiring process, he soon began to purchase his textile mill clients' accounts receivable and to check on the credit standing of their customers. This activity broadened and gradually James Talcott dropped his sales agent role to concentrate on buying receivables—what is now known as "old line factoring." Today a serious, dignified founder Talcott looks down from his portrait on the boardroom wall of James Talcott Inc to oversee a broad range of financing activity scarcely dreamed of in his lifetime.

Talcott is still one of the nation's top old line factors and this business continues its long and steady growth; in just the past ten years it increased 72%. But it no longer is the mainstay of company lending activities. Commercial financing (started in 1944) currently utilizes 55% of Talcott funds and instalment sales to industry (begun in 1955) employs 25% compared with 20% for factoring. Also Talcott's clientele has expanded from textiles to cover everything from toy makers to electronics experts.

As a result of the swift gains in the new areas, overall Talcott figures show a much higher growth factor than the old line factoring operation alone. Thus in 1949-58:

- Volume of receivables financed and factored has just about quadrupled. It hit $846,000,000 in 1958, a new record for the seventh consecutive year.
- Total funds employed in the business multiplied five times with $105,000,000 out on loan last year-end.
- Net income growth has almost kept pace with volume increases; 1958 record earnings of $2,365,000 ($2.63 a share) were nearly four times 1949's $610,000.
- Stockholders were treated to five hikes in the cash dividend plus four 10% stock disbursements so the current annual rate of $1.32 compares with an adjusted 65¢ in 1949. The stockholder family now numbers over 3,000 *v* 951 ten years ago.
- On the New York Stock Exchange, price of Talcott shares has paralleled the rise in results. The stock now trades at 35, five times the 1949 low. In fact, Talcott is one of a select group of eleven Big Board companies whose year-end stock prices topped those of the previous year each year since 1949.

So far this year Talcott statements again follow the expanding pattern. First quarter earnings of $680,000

or 67¢ a share were 6% above the final 1958 quarter and a whopping 48% ahead of the $459,000 netted in the first period of 1958. First-half earnings are estimated at $1,-450,000 *v* $1,005,000.

Remarkably, most of Talcott growth has come from internal expansion—primarily into the new financing areas. However acquisitions have also been a significant factor in fattening company figures. About one-third of the 30% jump in 1958 volume came from the addition of three new firms to the family: instalment financer Credit-America Corp plus commercial finance outfits Merchants Acceptance Corp and Lexington Corp. And not shown on the books is one of the main assets Talcott picked up in its corporate purchases: president Herbert Silverman who joined Talcott when it acquired his Centaur Credit Corp back in 1944 to become the first factor to also take on commercial financing.

Credit Career. New York-born Silverman began his financial career as an undergraduate at New York University's School of Commerce & Accounts (class of 1932). While attending St Lawrence University Law School young Silverman in 1933 organized Centaur. When Talcott acquired it eleven years later, the businessman-attorney became a director and vice president in charge of commercial finance for the factor.

Division head Silverman worked with president James Talcott (grandson of the founder) to build up first commercial financing, then industrial time sales accounts. In 1956 he was named executive vice president and last year when president-chairman James Talcott relinquished the presidency, Silverman took over.

A sometime golfer ("in the nineties"), Herb Silverman spends most of his time promoting commercial financing and factoring. He served as president of the National Commercial Finance Conference, is now honorary chairman. A regular contributor to business and accounting journals, he tries to acquaint the business public with the intricacies of his operations—for instance the much-emphasized but little understood difference between factoring and commercial finance.

Recourse Requirements. Herb Silverman explains: "An old line factor purchases accounts receivable outright without recourse to the client if the customer fails to pay;

Big factor Silverman

a commercial finance company generally acquires receivables or other assets on a recourse basis, can recollect from the client if the customer fails to pay."

The factor's clients are generally manufacturers in a highly concentrated industry, primarily textiles. As a vital adjunct to his services, the factor passes on credit standing of prospective customers for his clients. Thus Talcott maintains over 60 filing cabinets full of credit information on almost "every customer worthy of note in this country." In fact some clients merely avail themselves of this credit facility, do not borrow funds.

When the factor has bought the receivables, the client's customers are usually notified and pay the factor directly. By contrast in commercial financing the customer need never know of the financing arrangement; the seller handles its own collections, then remits payments to the financer. Thanks to its commercial finance experience, Talcott recently was able to pioneer a "non-notification" system for factoring as well. This is popular since some clients dislike publication of the fact they have sold accounts.

In other ways too, commercial financing is more flexible than factoring. Loans are often granted on assets other than receivables and the service can be extended to a wide range of industries. "We have accounts in almost every conceivable field—A to Z—aluminum to zinc."

Basically however both factoring and financing serve the same function. They enable a client to sell his receivables, receive cash immediately. He avoids tying up his own capital, can pay his bills promptly to obtain purchase discounts. Thus both methods smooth out peaks and valleys in capital needs as sales fluctuate. The cost is usually 6% annual interest on factored loans plus a service charge for credit checks; the rate on commercial finance loans is approximately 1% a month.

Because of the credit checking relationship, factoring clients tend to remain on the books longer than commercial finance accounts. "Almost every month we celebrate 25 years with some factoring client." On the other hand the commercial finance loan merely gives the borrower a revolving supply of working capital needed to tide him over until he can generate enough of his own cash or obtain an unsecured bank loan. Herb Silverman states: "We love to lose customers; we like to see them grow to the point where they can use unsecured bank credit." (Average length of the relationship: 3-to-5 years.)

Banking Brothers. As Herb Silverman explains it, Talcott business supplements rather than competes with bank lending. He points out: "Over half of our business currently comes through bank referrals. Our customers are good risks which we handle on a secured basis. Banks do not like to bother with that type of secured loan."

However, president Silverman does admit the company is directly competitive with commercial bank lending in its newest field—industrial time sales financing. However,

here he feels Talcott has the advantage. "We operate nationally while banks operate regionally. A buyer wants new equipment in a hurry and we can speed approval of the line of credit."

Talcott's time sales financing grew out of its commercial financing division, was made a division in its own right last year. Funds employed in this type of loan now total $35,000,000 *v* $3,700,000 back in 1955. The loans are made on behalf of distributors selling income producing equipment—printing machines, laundry & dry cleaning equipment, cement mixing and road building machinery, etc—much in the manner banks or finance companies handle auto financing for car dealers. According to financer Silverman: "It's a burgeoning field for the future."

Cash Flow. To expand its own funds to meet expanding business, Talcott has busily raised new money in the past year. Last June the company sold 100,000 shares of common stock; in December and January it sold $3,000,000 of subordinated notes to institutions; this March it brought out another 150,000 shares of common, followed by another $2,000,000 placement of notes.

Because of the money lending nature of its business, Talcott is always eager to increase supply of loanable funds and Herb Silverman admits: "We are constantly studying the need for future financing." As a matter of fact Talcott is now negotiating a $7,000,000 institutional placement. All told the firm has $29,200,000 in long-term debt and four issues of preferred ahead of the 950,000 shares of common.

In addition, Talcott also sells commercial paper, has credit lines with 58 banks with a total of $91,000,000 available; $70,000,000 of this was taken down as of last week. Talcott pays the prime bank rate for its money and the less drastic swings in this money rate in recent years (4½-to-3½-to-4-to-4½%) have not affected year-to-year growth.

Finance man Silverman also maintains: "Much of the talk of the cost of money is exaggerated; interest rates do have an effect on long-term borrowing but as far as our clients are concerned, what is important is how much money they can make on the money they borrow; a differential of a half of one percent doesn't mean that much."

In fact, Herb Silverman is quite proud of the job done by the company and the industry in getting funds to clients in tight money periods: "We have been able to satisfy all the legitimate needs of our customers. During the last tight money period we were still receiving proposals from banks to take lines of unsecured loans."

Herb Silverman concludes earnestly: "We can help industry in prosperity or adversity and do it quickly. In fact our flexibility permits us to grow even contrary to economic trends as we can spot areas of need in the business community in both boom and decline." With more growth in sight, he concedes Talcott should show "favorable" 1959 results—presumably for the eighth consecutive year of new records.

Big Changes in Rail and Sea Freight

Piggyback and Fishyback Bring Nearer the Day of A 'Universal Container'

ONCE UPON A TIME (in 1843-57) canal boats were lashed onto railroad flatcars and trundled between points on the Philadelphia-Pittsburgh rail-water line. This co-operative venture probably was the birth of piggyback freight which is the most expansive phase of railroading today.

After use in the Civil War (to carry Army wagons on flatcars into battle) and in 1884-93 (to carry farm carts to market on the Long Island Rail Road—see cover), piggyback arose again in 1926 on the Chicago, North Shore & Milwaukee Railroad. In the Thirties the Chicago, Great Western and the New York, New Haven & Hartford used the trailer-on-flatcar. Today 47 of the nation's 110 biggest railroads are in the field with more on the way. One new convert: the Atlantic Coast Line which begins Washington-Jacksonville service this month.

Piggyback shipments have soared from 168,000 flatcars in 1955, the first full year records were kept, to 277,000 cars carrying 420,000 trailers in 1958. For the first 17 weeks of 1959 loadings jumped 58% to 122,000 flatcars. Though piggyback still amounts to barely 1% of all freightcar loadings (8,000 out of 600,000 in recent weeks) the growing roster of users among railroads and shippers gives ample promise of further growth.

Up to half the country's rail freight may someday go piggyback, predicts the Association of American Railroads. Deodot Clejan, French inventor of the Clejan piggyback car made by General American Transportation, expects "piggyback will become one of the major modes of transportation. Within 30 years or so most boxcars will be replaced by piggyback cars. It will redistribute highway and rail traffic."

Inventor Clejan should know because in the years following War II he helped expand piggyback in France for a group of truckers and railroads who wanted "a marriage of convenience." The result is applauded by both: more short-haul freight goes by truck (cheapest for short trips), more long-haul by rail (cheapest for long trips).

In the US the Chesapeake & Ohio now couples piggyback flatcars to passenger trains to speed them over the 233-mile stretch between Staunton, Va and Charleston, W Va. Railway Express started shipping piggyback on the New Haven Railroad a year ago, now uses the New York Central, the Pennsylvania, the C & O and the Wabash and plans to do more piggybacking. Last December the US Freight Company (the country's biggest freight forwarder) sold $7,000,000 worth of stock chiefly to expand its piggybacking begun a few months earlier.

Piggyback cars make more money, says Roy Milbourne, director of the New York Central's piggybacking Flexi-Van division. The Central's average freightcar rolls only

24 trips a year because of delays as carloads are routed to customer sidings and unloaded. By contrast, fast-loading Flexi-Van (two trailer containers mounted on a flatcar) can make up to 130 annual 1,000-mile trips. A Flexi-Van unit brings in an average revenue of $3,000 a month or $36,000 yearly which almost equals its cost ($38,650 complete with two vans and all equipment). The average freightcar brings in $312 a month or $3,744 a year, at best half its cost ($7,000 & up).

One of the big boosters of piggyback is the Fruehauf Trailer Company which builds Flexi-Van flatcars and matching trailers under agreement with the Central. It also has a contract to make the containers for General American's Clejan cars. Fruehauf financial vice president Robert Hill reports the initial sale of $8,000,000 worth of Flexi-Van equipment to the Central in August 1958 has been followed by Flexi-Van orders from the Pittsburgh & Lake Erie, Milwaukee, Burlington, Sante Fe and US Freight.

Piggybacking railroads have a wide choice of equipment. Central-favored Flexi-Van uses 35-foot trailers which sit on a specially designed flatcar. With a built-in automatic loading mechanism, a Flexi-Van trailer container can be loaded onto a flatcar in four minutes by one man. The low-slung Clejan car, originally designed for trailers which are backed on with their wheels, has been outfitted for containers too. Or, like the Texas & Pacific (see cover), a line can use a conventional flatcar and tie its trailers down with special hitches such as those made by ACF Industries. Some roads have purchased fork-lift trucks made by Clark Equipment Company to put wheelless containers onto flatcars. And there are many more variations including the Missouri Pacific's trailer lifted by a crane from chassis to freight car and the C&O's Railvan trailer with retractable wheels.

Search for Standards. More than 30 railroads publish joint rates for piggybacking. But the lack of standardization hampers efficient interchange of equipment. The length of piggyback flatcars varies from 38 to 88 feet, of trailers from 17 to 40 feet. Some cars carry two trailers and others one.

Another problem is the big differences in piggyback services and considerable dispute as to who hauls what and for how much. Right now there are four main types of service:

Fishyback container boards its ship

• Under Plan I the railroads haul trailers received from common carrier truckers who handle all dealings with the customer. Some railroads think this is a good way to catch more freight in a short-haul territory riddled with small plants.

• Plan II is when the roads carry customer freight in railroad trailers.

• Plan III is ditto but in customer trailers.

• Plan IV is when the customer uses his own trailers and flatcars and the railroad supplies only the track and the pull.

In October last year the B&O decided Plan IV was just the thing for a long ride and slashed rates 14-to-28% below regular freight tariffs. This stung the truckers and the Eastern Central Motor Carriers Association made formal protest to the ICC. The august Commission still ponders the case, along with several other major piggyback rate disputes.

Despite these problems piggyback grows. Bob Hill says: "We think there is a great future for piggybacking. We are licensing it abroad and have completed a licensing agreement with Japan. We are negotiating with several European countries." Railroad executives polled by *Railway Age* magazine like piggyback because it "provides a way to woo high-rated traffic moving over the highways."

In the Swim. A cousin of piggyback is fishyback which is younger and almost unknown. In February 1958 Fruehauf completed a $15,000,000 order for 4,000 containers and 2,000 chassis for Pan-Atlantic Steamship Corp, a subsidiary of McLean Industries. Bob Hill reports: "We outfitted six ships with our system container on a chassis. The container is brought aboard by a deck crane." He remarks: "Fishyback grows more slowly than piggyback because of the cost of converting ships. But so far at least its advantages appear tremendous."

Pan-Atlantic is "delighted" with the public response to fishyback and "pleased" with the savings. "In about 4½ minutes we can handle up to 45 tons of cargo," reports an enthusiastic official. "In 14-to-16 working hours we get a full load off and a full load—226 trailer containers—on. It takes two regular gangs of longshoremen (18 men a gang in New York) to do the job. A conventional ship needs three or four days and five-to-seven gangs."

Advantages besides speed: loading is seldom halted by weather; damage is negligible and bracing of cargo unnecessary. "Any number of times in bad weather our ships are the only ones loading in the whole Port of New York. And without a doubt we have the lowest damage experience in the industry."

Fruehauf's Bob Hill makes no secret: "We're having constant discussions with every major steamship line in the US * * * The big problem is what type of container should be standardized. The size has been suggested as small as 10 feet long. Once a container is standardized, we figure fishyback is going to be a very sizable portion of our business. Universal fishybacking is going to come slowly but the economics are such it is inevitable."

Meantime Farrell Marine Devices of Washington, DC has designed a ship "with revolutionary features to accommodate the increasing trend to integrated freight." Moving decks can be rolled back in 30 seconds to permit "swift positioning of trucks or containers inside the vessel." A turntable at the stern makes for easy access for trucks from the dock.

Universal Box. Beyond piggyback and fishyback are the days of the universal container. Already a committee of the American Standards Association, a national coordinating body used by many industries, works to standardize a "van container" for truck, train or ship. Committee participants include the Truck Trailer Manufacturers Association, the Maritime Administration, the Association of American Railroads and the Air Transport Association. A draft proposal calls for universal containers eight feet high, eight feet wide and in varying lengths of 12, 17, 20, 24, 35 and 40 feet. The specifications may be standardized as soon as next Summer.

Meanwhile General American Transportation has signed a contract with Fruehauf for the manufacture of universal containers and Fruehauf reports: "We have some in production right now."

President Edmund Lasher of the North American Car Corp told the Pacific Northwest Advisory Board: "Shippers will demand more and more transport integration * * * The common denominator is, of course, the uniform container * * * It must eventually be possible for a shipper to send his goods to any part of the world on a single bill of lading and expect them to move over the fastest, most economical routes regardless of the type of transportation involved. Ultimately our universal system, our 'lowly box,' will force redesign of ocean going vessels, aircraft—and who knows, perhaps missiles also."

WE HEAR FROM . . .

Military Money Managers

OCEANSIDE, CAL

GENTLEMEN:

This morning I opened my May 13 issue of the INVESTOR'S READER and plunged into the lead articles on missiles. Before I reached the bottom of page one I came across the following:

"Unlike most active major generals, Medaris was an independent businessman for ten years in retail trade and management advisory work. Hence he keeps accurate count of the billions of taxpayer money at his command."

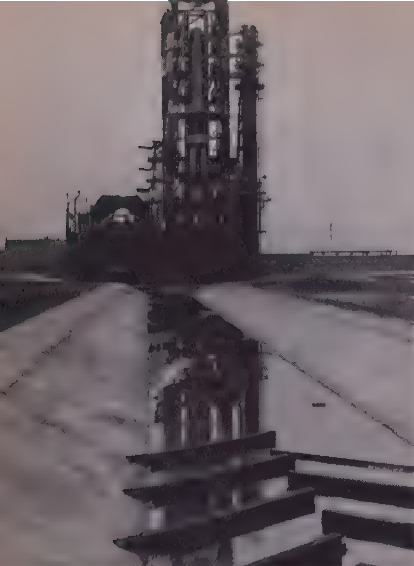
It is not my intent to take any credit from General Medaris—I couldn't. But your choice of words in praising him contained the distinct impression that the rest of the lot are unwilling or unable to keep count of the funds at their command.

In fairness to the active, retired, present, past or future generals and admirals —or even colonels—please do not perpetuate the fallacy that business is the sole school for responsible performance.

Inasmuch as your aim is to promote "a better understanding of business news" let's make the better understanding a two-way street. Such generalizations can only do harm.

Very truly yours,
BERNARD T KELLY
Colonel, USMC

We certainly did not mean to impugn the fiscal abilities of a great many devoted officers in all the services. Our main point was merely that business experience, especially in the competitive field of retail trade, is always helpful.—*Ed.*



Space Age Brain Trust

CLOCKWISE from upper right the space birds shown perched on their launching pads are the Able-1 space probe, the Thor IRBM, Atlas and Titan ICBMs. Their plumage differs a bit but they have a number of things in common: they are all part of the Air Force missile & space program; they are all nested in the Cape Canaveral aerie; all were developed under the wing of brainy Space Technology Laboratories, the missilery research subsidiary of Thompson Ramo Wooldridge Inc.

California-based Space Tech is overall civilian manager for a large portion of the Air Force missile program including the four missiles shown here plus the sophisticated solid-fueled Minuteman ICBM. As a kind of Phi Bete-keyed strawboss for the Air Force, Space Tech must carefully abstain from any operating tasks itself—but it handles systems engineering and technical direction work for the birds from determining basic design characteristics and defining specifications for subcontractors to conducting overall systems tests, including final flight tests.

In addition Space Tech also works with the Advanced Research Projects Agency and the National Aeronautics & Space Administration on advanced space projects like the Pioneer space probes and the proposed man-in-space Project Mercury. In this area it also takes on design and modification of the second and third stages of the space travelers, design and fabrication of the payload, establishment of tracking systems and reduction of the data beeped back by the probes. To support both its missile and space work, Space Tech carries on a wide range of experiments from ballistics and electronics studies to long-range fundamental research for

possible "blue sky" developments.

Even more remarkable than the scope of Space Tech tasks is the actual size of the outfit which undertakes them. The roster of Space Tech employes numbers but 2,900; however in keeping with the academic air of its nickname, over 1,000 of these are highly trained professional scientists and engineers—the "largest staff in the nation devoted exclusively to research, development and systems engineering in the field of ballistic missiles and space projects." Fully 15% have their PhDs, another 30% a Masters. Space Tech does no real manufacturing, devotes its 900,000-square foot facility near Los Angeles International Airport to R&D work and data reduction.

Although no breakdown of Space Tech contributions to Thompson Ramo Wooldridge results is released, it was disclosed last October the space expert had amassed about $5,000,000 of retained earnings in its five-year life. And recently a report to a House committee announced fees averaged 11.9% on its work as systems manager for the Air Force. Earlier this year, company officials estimated Space Tech will add the equivalent of 60¢ a share to Thompson Ramo Wooldridge 1959 results. (Thompson earned $2.86 in 1958, a record $4.32 in 1956.)

However, the five-year association between Space Tech and its parent may be nearing an end. The missile manager's history dates back to the 1954-established Guided Missile division which Ramo Wooldridge formed to handle the Air Force missile supervisory assignment. In 1957 this plus other Ramo Wooldridge groups became known as the Space Technology Laboratories division. After the Thompson-Ramo merger last October, Space Tech became a separate and autonomous subsidiary

with its own management to give Thompson a more disinterested status from which to pursue hardware contracts in its own missile business.

However, while Thompson Ramo Wooldridge is completely free to bid on all non-Space Tech missile work it still cannot bid on work for the birds managed by its subsidiary without the approval of the Secretary of the Air Force. So to gain an across-the-board bidding position, Thompson is considering "the possibilities for a separation of ownership." If & when this separation comes, observers feel the ambitious brain trust will depart via the sell-off rather than the spin-off route as Thompson officials state any possible disposition would be made so as to enable the parent to regain its investment.

FISCAL

The Five Percenters

THE BELEAGUERED bond market appeared to have found a magic number two weeks ago but for borrowers the magic proved expensive. On May 27 New York power giant Consolidated Edison brought out an issue of Aa-rated bonds which carried a fat 5⅛% coupon and were sold to yield 5.05%, the highest rate for such a security in a quarter of a century.

The same day a National Steel Aa-rated issue brought out at 4.687% proved sticky while $15,000,000 of Aa-rated West Penn Power bonds went out the window with a 5% yield. Thus 5% seemed to represent a return finally high enough to pique investor interest at the moment and which at least temporarily should set the market pace for new corporate bond offerings.

The move of the senior securities list into new high interest rate grounds spotlighted the distance bond yields have moved even after the climax of their precipitous climb in the latter part of last year (IR, Sept 17, 1958). For example a week before the Con Ed offering a new Aa Idaho Power issue was offered to the public at 4.95%. Last October it brought similar bonds to market at 4.50%. In the municipals sector, Public Housing Authority bonds had to be sold at a fat 3⅞% yield at the long end—the equivalent of 6.25% for a buyer in the 38% income tax bracket, 7.75% in the 50% bracket or 11.07% in the 65% bracket. Last Fall the Authority's 3½s, due in 1995, could be brought out at a 3.45% yield.

Cry Uncle. However, the biggest problems hit the securities of the nation's biggest borrower, Uncle Sam. For instance, the Government 4s of 1969 sold at a premium last September at 102 28/32; in mid-March they still sold at 101 16/32; recently they went as low as 98 4/32. An investor who bought the ill-fated 2⅝s of 1965 at 100½ last June would now have a nine-point loss. Long-term Governments such as the 3s of 1955 have recently sold as low as 82 24/32 against 89 24/32 in September.

But perhaps the most striking evidence of buyer's disillusionment with Governments could be seen in the May refunding. After months of tapping only the very short-term market for its whopping cash and

refunding needs, the Treasury continued with two bill issues to raise new cash; then it sought to refund \$1.8 billion of maturing 1¼s with a one year certificate at a 4.05% rate, the highest yield for such a security in the post-War II era. However even this failed to satisfy and 31% of the maturing bonds were turned in for cash, the second highest attrition rate in the annals of Treasury financing (the highest: 32% in May 1955).

Spread in Spreads. All of this served to still further widen the topsy-turvy "reverse spread" between stock and bond yields which has existed since last July. Although stock yields normally used to be expected to ride above bond yields, Standard & Poor's industrial stock index now yields but 3.08% while Moody's Aaa corporate bonds return 4.39%. Many supposedly low-yielding Governments pay well over 4%.

And contrary to the old axiom which held a reaction in one or both markets can be expected after bond yields move above stock yields, investors seem to like it that way. Unlike the very short reign of the negative spread which was soon reversed by the stock market decline of July 1957, the present spread continues to grow more negative.

While this spread development is similar to 1927-29, many different factors are now involved. High senior securities yields have still not been enough to counter the price investors are willing to pay for the inflation-hedge and tax advantages for both individuals and corporations which are offered by common stocks. In addition indications of a gradual move to still tighter money reinforces the reluctance of investors to make commitments in senior securities.

For instance, yields on Treasuries will still be under pressure. Even though the Government has confined itself to maturities of no longer than one year in its most recent financing, it still was not able to come up to the market requirements with the 4.05% certificates offered last month.

Any attempt to sell a longer term security would almost surely necessitate a request to Congress for a hike in the statutory 4¼% coupon ceiling on Government bonds and such an official boost (assuming Congress would approve) could trigger an upward move in yields of other long-term issues. Odds are Secretary Anderson will forward an interest rate increase proposal to Capitol Hill before Congress adjourns, possibly coupled with his request for an increase in the debt limit. However the Treasury could elect to stay in the short-term market as corporations—which have been using their improved cash positions to buy the bills—will probably continue in a liquid buying position through most of this year.

Drought in Recovery. But if the recovery proceeds as now indicated this source will dry up as firms will need their cash for capital outlays (according to the recent McGraw-Hill survey of spending plans, businessmen expect to boost capital expenditures 7% this year). In this case, the Treasury will have to turn

to the longer-term markets or to more inflationary debt marketing through the banks.

Meantime the banks and the Federal Reserve are having their own problems. In recent months, the Fed has been putting steady pressure on bank reserves with the result the banking system currently operates with a "reserve deficit" of approximately \$250,000,000, a fast turn from free reserves of more than \$500,000,000 a year ago.

The banks in turn are loaned up to a relatively high degree which means they must cash in some bond holdings at a loss if they want to obtain more loanable funds. Hence last month the prime rate (paid by top credit risks) was raised from 4% to 4½% or back to the level of August 1957 which in turn was the highest since the early Thirties. Last week the Fed followed with a compensating increase to 3½% from 3% in the discount rate it charges for loans to the banks. This is the fourth increase since the recovery began and compares with a 1¾% rate last August. The move was expected since a wide spread between discount and prime rates could give banks a free ride (say, banks borrowed from the Fed at 3%, lent to customers at 4½% or better).

However the Fed itself is faced with a dilemma. One horn is its determination to fight inflation; the other its desire not to interfere with the Treasury's funding of its gargantuan money needs. Also there is still some hesitation to step too tightly on the brakes in fear of halting the economic recovery. One reason for caution: although the employment picture improved sharply in April, rehiring of workers still lags behind the pick-up in business activity and industrial output.

If the recovery does continue as all benchmarks now indicate it should, money cannot help but get tighter, interest rates go higher and seasoned bond prices lower. Items: continuing heavy Government demands in the short-term and possibly long-term market; the pickup in business spending which will ultimately swell the currently light calendar of corporate offerings; heavy demands for mortgage money to finance the higher level of activity in home building; record money requirements of states and municipalities which promise to produce a new record of tax-exempt offerings for the third consecutive year; slack in the build-up of savings coupled with the fact many investors still seem to be just plain sold on the stock market.

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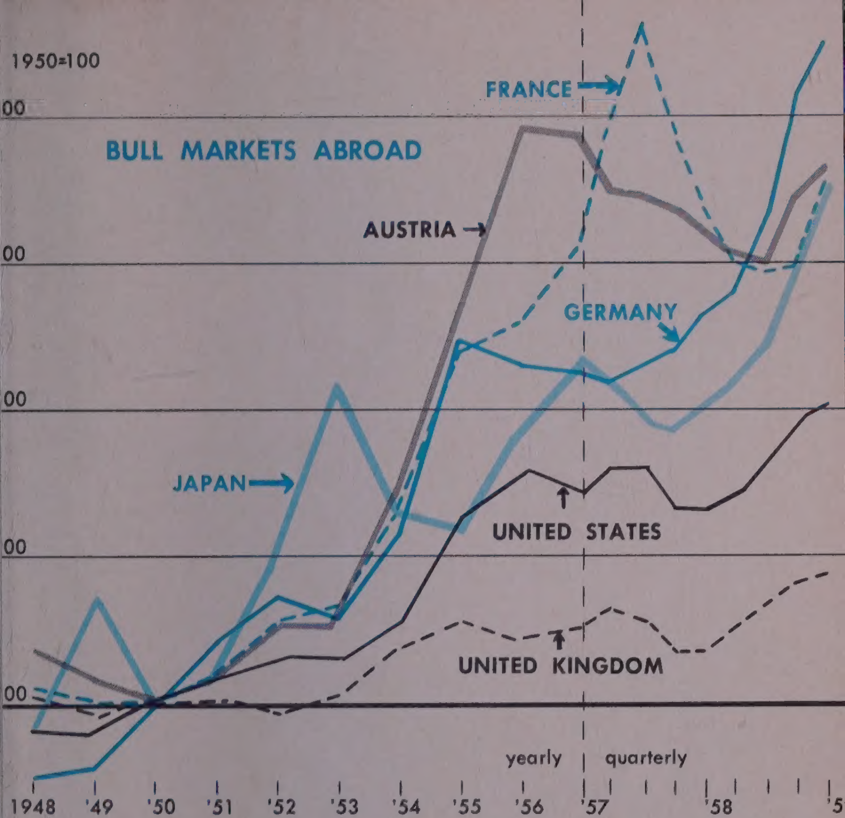
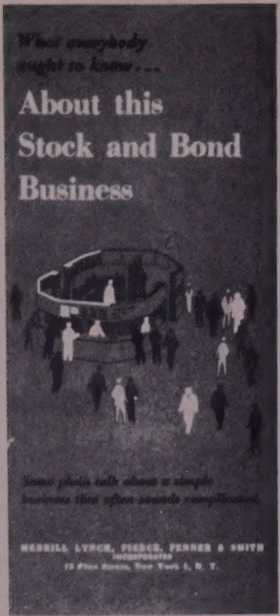


The US stock market has marched forward to a series of new highs for most of this decade and particularly since it began its latest upward move in mid-1957. But stock prices in foreign markets have in many cases risen faster. The chart provides a comparative look, based on figures compiled by the International Monetary Fund. It shows the decade's gains in US stocks (measured by Standard & Poor's stock index, adjusted to the common base of 1950=100) have been outstripped by those of Japan, Germany, Austria and France. The average British stock, though up 90% since 1950, has lagged behind the US rate; so have Dutch and Swiss stock indices (not charted but strikingly similar to the British trend).

A closer look shows the stock price rise in all the nations has picked up speed in the last 15 months. And while not yet indicated on the quarterly chart, stocks have continued to clamber to new highs nearly everywhere. London reports a "bull market atmosphere" with stocks up 5% last month, nearly 40% in the past year. In Switzerland the stock index is up 9% since February while Dutch securities rose 16% in the past three months. In Austria market interest inspired by the boom has caused two Austrian adult education groups to sponsor how-to-invest classes.

This is a news and educational publication about financial and business matters. Articles are selected for their news or general interest and



SKELETON KEY

Napoleon's Egyptian campaign of 1799 was not an unqualified success from a military standpoint, but it had one fortunate side effect on history. One of Bonaparte's officers stumbled across a tablet inscribed with curious characters —and had the good sense not to throw it away.

That tablet was the Rosetta stone, and it was the key that unlocked the hieroglyphic language of early Egypt for subsequent generations of archeologists.

If Wall Street has a Rosetta stone, we like to think it's an advertisement that we first ran about a dozen years ago and have been updating and reprinting ever since. It's called "What Everybody Ought to Know About This Stock and Bond Business," and it was written to take the mystery out of investing and to define the vocabulary of the stock market in words anyone can understand. It must do the trick, too, because there are at least 4,000,000 copies in print, and the demand goes on and on.

Would you like a copy? It's free, of course. Just ask at your nearest Merrill Lynch office.

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